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Term: L14 and (solicit$ same (variable or value))

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DATE: Thursday, December 23, 2004 Printable Copy Create Case

Set Name side by side	Query	Hit Count	Set Name result set
	DB=EPAB,JPAB,DWPI,TDBD; PLUR=YES; OP=OR		
L16	L14 and (solicit$ same (variable or value))	3	L16
L15	L14 and (solicit$ adj2 (variable or value))	0	L15
L14	(solicit$ adj2 (population or users or people or individual))	45	L14
	DB=USPT,USOC,EPAB,JPAB,DWPI,TDBD; PLUR=YES; OP=OR		
L13	L6 and (solicit$ adj3 (variable or value))	8	L13
L12	L6 and ((purchase))	115	L12
L11	L6 and ((purchase) adj3 (variable or value))	2	L11
L10	jp0033570[pn]	0	L10
L9	0033570[pn]	2	L9
L8	L6 and ((purchase or first or second$ or primary) adj variable)	1	L8
L7	L6 and ((first or second$ or primary) adj variable)	1	L7
L6	(solicit$ adj2 (population or users or people or individual))	414	L6
L5	(solicit$ same (first or second$ or primary) same variable)	27	L5
	DB=USPT; PLUR=YES; OP=OR		
L4	(solicit$ same (first or second$ or primary) same variable)	11	L4
L3	(solicit$ ADJ2 (first or second$ or primary) adj2 variable)	0	L3

L2	(solicit$ same (first or second$ or primary))	856	L2
L1	(5696907 or 6182058 or 6456982 or 5701400)[pn]	4	L1

END OF SEARCH HISTORY

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### Status: Path 1 of [Dialog Information Services via Modem]

### Status: Initializing TCP/IP using (UseTelnetProto 1 ServiceID pto-dialog)
Trying 31060000009998...Open

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PLEASE LOGON:
 ******** HHHHHHHH SSSSSSSS?
### Status: Signing onto Dialog
 ********
ENTER PASSWORD:
 ******** HHHHHHHH SSSSSSSS? ********
Welcome to DIALOG
### Status: Connected


Dialog level 04.20.00D

Last logoff:  15nov04 10:01:20
Logon file405 23dec04 15:47:19
           *** ANNOUNCEMENT ***
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                   ***
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                   ***

     >>> Enter BEGIN HOMEBASE for Dialog Announcements <<<
     >>>    of new databases, price changes, etc.      <<<
                   ****
FTCOR is set ON as an alias for 15,9,623,810,275,624.
FTCOR2 is set ON as an alias for 813,636,621,16,160,148,20.
NFTCOR is set ON as an alias for 77,35,583,2,65,233,99.
FTHEALTH is set ON as an alias for 442,43,149,444,129,130,455.
NFTHEALTH is set ON as an alias for 5,73,151,155,34,434,74,42.
>>>An alias cannot be more than 15 characters in length.
>>>No alias set.
>>>An alias cannot be more than 15 characters in length.
>>>No alias set.
FTADVERTISING is set ON as an alias for 635,570,PAPERSMJ,PAPERSEU.
* * *
SYSTEM:HOME
Cost is in DialUnits
Menu System II: D2 version 1.7.9 term=ASCII
                     *** DIALOG HOMEBASE(SM) Main Menu ***

 Information:
  1.  Announcements (new files, reloads, etc.)
  2.  Database, Rates, & Command Descriptions
  3.  Help in Choosing Databases for Your Topic
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  6.  DIALOG(R) Document Delivery
  7.  Data Star(R)

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      /H = Help             /L = Logoff          /NOMENU = Command Mode


Enter an option number to view information or to connect to an online
 service.  Enter a BEGIN command plus a file number to search a database
(e.g., B1 for ERIC).
?b 15, 9, 623, 810, 275, 624, 636, 621, 813, 16, 160, 148, 20, 77, 35, 583, 65, 2, 233,
 473, 474, 475, 278, 634, 256, 348, 349, 347

>>>           77 does not exist
>>>          278 does not exist
>>>2 of the specified files are not available
       23dec04 15:49:35 User242976 Session D40.1
            $0.00     0.211 DialUnits FileHomeBase
     $0.00  Estimated cost FileHomeBase
     $0.75  TELNET
     $0.75  Estimated cost this search
     $0.75  Estimated total session cost   0.211 DialUnits


SYSTEM:OS  - DIALOG OneSearch
  File  15:ABI/Inform(R) 1971-2004/Dec 23
         (c) 2004 ProQuest Info&Learning
*File  15: Alert feature enhanced for multiple files, duplicate
removal, customized scheduling. See HELP ALERT.
  File   9:Business & Industry(R) Jul/1994-2004/Dec 21
         (c) 2004  The Gale Group
  File 623:Business Week 1985-2004/Dec 22
         (c) 2004 The McGraw-Hill Companies Inc
  File 810:Business Wire 1986-1999/Feb 28
         (c) 1999 Business Wire
  File 275:Gale Group Computer DB(TM) 1983-2004/Dec 22
         (c) 2004 The Gale Group
  File 624:McGraw-Hill Publications 1985-2004/Dec 22
         (c) 2004 McGraw-Hill Co. Inc
*File 624: Homeland Security & Defense and 9 Platt energy journals added
Please see HELP NEWS624 for more
  File 636:Gale Group Newsletter DB(TM) 1987-2004/Dec 22
         (c) 2004 The Gale Group
  File 621:Gale Group New Prod.Annou.(R) 1985-2004/Dec 22
         (c) 2004 The Gale Group
  File 813:PR Newswire 1987-1999/Apr 30
         (c) 1999 PR Newswire Association Inc
  File  16:Gale Group PROMT(R) 1990-2004/Dec 22
         (c) 2004 The Gale Group
*File  16: Alert feature enhanced for multiple files, duplicate
removal, customized scheduling. See HELP ALERT.
  File 160:Gale Group PROMT(R) 1972-1989
         (c) 1999 The Gale Group
  File 148:Gale Group Trade & Industry DB 1976-2004/Dec 22
         (c)2004 The Gale Group
*File 148: Alert feature enhanced for multiple files, duplicate
removal, customized scheduling. See HELP ALERT.
  File  20:Dialog Global Reporter 1997-2004/Dec 23
         (c) 2004 The Dialog Corp.
  File  35:Dissertation Abs Online 1861-2004/Dec
         (c) 2004 ProQuest Info&Learning
  File 583:Gale Group Globalbase(TM) 1986-2002/Dec 13
         (c) 2002 The Gale Group
*File 583: This file is no longer updating as of 12-13-2002.
  File  65:Inside Conferences 1993-2004/Dec W3
         (c) 2004 BLDSC all rts. reserv.
  File   2:INSPEC 1969-2004/Dec W2
         (c) 2004 Institution of Electrical Engineers
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*File   2: Alert feature enhanced for multiple files, duplicates
removal, customized scheduling. See HELP ALERT.
  File 233:Internet & Personal Comp. Abs. 1981-2003/Sep
         (c) 2003 EBSCO Pub.
*File 233: File 233 is closed (no longer updating).
  File 473:FINANCIAL TIMES ABSTRACTS 1998-2001/APR 02
         (c) 2001 THE NEW YORK TIMES
*File 473: This file will not update after March 31, 2001.
It will remain on Dialog as a closed file.
  File 474:New York Times Abs 1969-2004/Dec 23
         (c) 2004 The New York Times
  File 475:Wall Street Journal Abs 1973-2004/Dec 23
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         (c) 2004 WIPO/Univentio
  File 347:JAPIO Nov 1976-2004/Aug(Updated 041203)
         (c) 2004 JPO & JAPIO
*File 347: JAPIO data problems with year 2000 records are now fixed.
Alerts have been run.  See HELP NEWS 347 for details.

      Set  Items  Description
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?s (solicit?(2w)(users or population or people or individual or entit? or sub?))
>>>File 15 processing for SUB? stopped at SUBLESSEES
>>>File 9 processing for SUB? stopped at SUBSIDISRIES
>>>File 275 processing for SUB? stopped at SUBSIDISES
>>>File 636 processing for SUB? stopped at SUBPAN
>>>File 621 processing for SUB? stopped at SUBSKILLS
Processing
>>>File 16 processing for SUB? stopped at SUBJE
Processed  10 of  26 files ...
>>>File 148 processing for SUB? stopped at SUBGAM
>>>File 20 processing for SUB? stopped at SUBDISIDIES
Processing
>>>File 35 processing for SUB? stopped at SUBLINEAGE
>>>File 65 processing for SUB? stopped at SUBSTITUITA
>>>File 2 processing for SUB? stopped at SUBFIELDS
Processing
Processed  20 of  26 files ...
>>>File 348 processing for SUB? stopped at SUBDIR3
Processing
>>>File 349 processing for SUB? stopped at SUBCARTRIDGES
>>>File 347 processing for SUB? stopped at SUBNOMINAL
Completed processing all files
          686795  SOLICIT?
         4788325  USERS
         1760874  POPULATION
        12860436  PEOPLE
         3695971  INDIVIDUAL
         2143740  ENTIT?
        10457047  SUB?
      S1    3730  (SOLICIT?(2W)(USERS OR POPULATION OR PEOPLE OR INDIVIDUAL
                  OR ENTIT? OR SUB?))
?s s1 and (solicit?(2w)variable)
            3730  S1
          686795  SOLICIT?
         1136699  VARIABLE
              20  SOLICIT?(2W)VARIABLE
      S2       1  S1 AND (SOLICIT?(2W)VARIABLE)
?d s2/7/1
      Display 2/7/1      (Item 1 from file: 15)
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Direct solicitation and large audit firm dominance in the audit market

ABSTRACT: A study provides evidence regarding the association between direct solicitation activities and the dominance of large audit firms in the audit market. Empirical tests are conducted to test for an association between direct solicitation rules and non-Big 8 client realignments to Big 8 auditors. Results indicate there is no empirical evidence that client-auditor realignments from non-Big 8 auditors to Big 8 auditors occur more frequently in markets allowing direct solicitation as compared to markets restricting direct solicitation. Thus, while the Big 8's dominance in the audit market increased in the 1980s, there is no evidence that this growth was associated with direct solicitation activities.

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DOC TYPE: Journal article LANGUAGE: English LENGTH: 15 Pages
WORD COUNT: 5316

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Display 2/9/1 (Item 1 from file: 15)

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TEXT: BACKGROUND

The U. S. Senate Subcommittee on Reports, Accounting, and Management (Metcalf Committee) (1976) concluded that the Big 8 (now the Big 6) auditors dominate the industry resulting in a two-tier industry structure. Since the committee's report, competitive conditions in the audit market have changed as a result of the removal of most advertising restrictions in 1978 and removal of direct uninvited solicitation restrictions by many state accountancy boards during the late 1970s and the 1980s. Advertising is defined as solicitation of a general nature, whereas direct solicitation is any solicitation that targets specific clients or groups of clients. Opponents of direct solicitation argue that the market is now even less competitive as predatory activities of large firms increase the dominance of large firms in markets allowing direct solicitation. During this period of change in the solicitation rules for audit firms, one small audit firm partner accused large firms of bringing "the law of the jungle to what once was a gentleman's profession; only the predators will survive" (The Wall Street Journal 1985). Although large audit firms deny wanting to put small audit firms out of business, they acknowledge that they have significantly increased marketing activities. In 1985, a "Big 8" firm administrator said, "Marketing is the new name of the game. The white gloves are off' (The Wall

Street Journal 1985). Some states that tried to keep accountants from using solicitation in the 1990 found themselves unable to do so. For example, a Supreme Court ruling in 1993 struck down a Florida law banning accountants from direct (in person) solicitation, suggesting that similar laws in states like Texas and Louisiana are likely invalidated as well (Los Angeles Times 1993).

During the 1980s, changes occurred within the market for auditing services as restrictions on direct uninvited solicitation (hereafter referred to as direct solicitation) were removed in most states. An example of a rule prohibiting direct solicitation is the National Association of State Boards of Accountancy's pre-1989 model rule that stated the following:(1)

A licensee shall not solicit an engagement to perform professional services for a person or entity by any direct personal communication without the invitation of the person or entity.

Advertising restrictions were removed in all states in the late 1970s subsequent to the Supreme Court's decisions in Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council (1976) and Bates v. State Bar of Arizona (1977).(2) Bans on price advertising by pharmacists were found to be violations of first amendment rights in Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council (1976). Similarly, in Bates v. State Bar of Arizona (1977), bans on advertising by attorneys were held to be unconstitutional.

The courts have distinguished direct solicitation from advertising. In Ohralik v. Ohio State Bar (1978), a case involving bans on direct solicitation by lawyers, the Court held that first amendment protection did not extend to bans on direct solicitation. The Court argued that direct solicitation leads to deception of consumers; since direct solicitation is targeted to a specific client or client group rather than to the general public, the widespread visibility which tends to reduce misleading inferences in advertisement is absent.

The membership of the AICPA voted to allow direct solicitation in 1979, responding to a threat of legal action by the Justice Department; this vote left the decision of allowing or banning direct solicitation to the discretion of the individual state boards. While the Justice Department also threatened action against several state boards of accountancy and filed a complaint against the Louisiana State Board of Accountancy,(3) many state accountancy boards retained bans on direct solicitation well beyond 1979. The case against the Louisiana State Board was dismissed in 1987 by a U.S. District Court, finding that the state action exemption doctrine protected the State Board from antitrust action because the state legislature authorized, reviewed and approved the rules. In contrast, Florida's ban on oral direct solicitation was held to be unconstitutional by a federal appeals court in 1989. In 1993, the Supreme Court heard an appeal on the Florida case and ruled that direct solicitation by auditors was unlikely to be used to mislead customers, as auditors are not professionals trained in persuasive skills, thus lending substantial support to the trend toward allowing solicitation. However, the desirability of this trend remains a controversial issue.

This study examines client-auditor realignments from non-Big 8 audit firms to Big 8 audit firms during the period 1980 through 1988.(4) Two characteristics of the U.S. audit market during the 1980s facilitate this empirical research. First, the lack of uniformity in state boards' rules regarding direct solicitation during the 1980s allows cross-sectional comparisons. Second, as restrictions on advertising were removed in the late 1970s by all state boards, the effects of direct solicitation practices on auditor realignment decisions can be distinguished from the effects of advertising during the 1980s.

HYPOTHESIS AND EMPIRICAL MODEL

The purpose of this paper is to consider whether the dominance of large audit firms in the audit market has increased due to the removal of bans on direct solicitation. Clients may switch from a non-Big 8 auditor to a Big 8 auditor for a variety of reasons including: internal changes taking place

within the client which make realignment to a larger auditor desirable, demand for a differentiated service offered by the larger auditor, brand name demand, and possibly, as opponents of direct solicitation activities have argued, large audit firm predatory activities. Previous research on realignment activities between large and small firms supports the idea that clients of small firms change to large audit firms either to take advantage of available economies from specialized audit technologies or to be associated with the brand name of the large audit firm. See Johnson and Lys (1990), Francis and Simon (1987), Palmrose (1986), and Palmrose (1988).

Johnson and Lys(1990) find evidence consistent with the proposition that client realignments to larger auditors are positively associated with client growth, changes in clients' operations and changes in clients' financing activities. Cushing and Loebbecke (1986) document evidence of differences in the audit technologies of 12 audit firms including the Big 8 auditors, but also including four non-Big 8 audit firms, suggesting potential realignment due to differences in technologies. Chaney et al. (1993) examined the association between direct solicitation and client-auditor realignments for clients within the Big 8 market and found evidence of significantly more frequent auditor switches in the market allowing direct solicitation than in the market banning direct solicitation.(5) This result was found to be consistent with predictions of a theoretical model of misalignments in banned markets and the existence of associated client efficiency losses.

Given that some degree of realignment to larger auditors is likely for clients that are experiencing rapid growth or changes in operations and/or financing activities, the issue addressed in this paper is whether the policy of allowing direct solicitation results in an increase in the frequency of realignment from non-Big 8 to Big 8 auditors. As mentioned previously, the competitive position of smaller CPA firms and the high levels of concentration in the audit market have been a concern of various groups, including the American Institute of Certified Public Accountants and the U.S. Senate, as far back as 1976. In more recent years, the Big 8, along with some of the larger non-Big 8 firms, have collapsed into the Big 6, spurring additional concern about excessive concentration. This concern, taken in conjunction with the finding that allowing solicitation has resulted in more frequent auditor switches among Big 8 firms, lends support for an investigation of the effect of solicitation on the displacement of smaller firms. Additional arguments supporting such an investigation arise from a perusal of the literature on differences among audit firms and are presented in the following paragraph.

In an environment where direct solicitation is allowed rather than banned, large CPA firms have greater opportunities to make prospective clients aware of any advantages they have to offer, whether related to specialization, technological expertise, lower fees due to economies of scale, or superior quality. Admittedly, small CPA firms have the same opportunities to make clients aware of any advantages they have to offer. However, extant literature provides far more arguments related to the superiority of larger auditors than the converse. For example, DeAngelo (1981) suggests a link between auditor quality and auditor size. Specifically, she suggests that Big 8 auditors are more likely to uncover errors in the client's financial statements, if such errors exist, than are non-Big 8 auditors; and Chow and Rice (1982), among others, argue that it is in management's best interest to choose auditors with high reputations. Palmrose (1988) presents evidence that Big 8 auditors overall have fewer "meritorious" lawsuits filed against them than non-Big 8 auditors. Balvers et al. (1988) suggest that Big 8 firms possess technological advantages over their competitors, while Eichenseher and Danos (1981) advance arguments related to large CPA-firm specialization and industry-specific concentration of the audit function. Danos and Eichenseher (1982) suggest lower expertise-related production costs for larger firms, i.e. economies of scale. In view of the fairly pervasive arguments supporting Big 8 cost or quality advantages over non-Big 8 firms, it seems worth investigating the possibility that direct solicitation leads to increased dominance by larger firms.

To test for an association between direct solicitation rules and

client-auditor realignment activities from non-Big 8 to Big 8 auditors, we compare auditor realignment in markets allowing direct solicitation (hereafter the allowed market) and markets banning direct solicitation (hereafter the banned market). The empirical model controls for two categories of client characteristics. First, certain client characteristics (for example, observable variables indicating high profitability or growth potential) may make a particular client a likely solicitation target for large CPA firms. Such characteristics may include client size, return on assets, new acquisitions, and new financing measured over the years preceding the realignment decision.

Second, client characteristics indicative of internal changes or anticipated changes may cause a particular client to initiate the search for a Big 8 auditor. Since client-initiated switches can take place in either the allowed market or the banned market, variables are included to control for differences between clients in the two markets which may affect the number of client-initiated switches in the respective markets. While data measuring the frequency with which clients request proposals are unavailable, we can and do identify client characteristics which are likely (or unlikely) to be present when non-Big 8 clients initiate the process of switching to a Big 8 auditor. Since the client's information about expected changes such as plans for new acquisitions or financing, as well as anticipated profitability or growth, is likely to precede historical accounting data, variables for each client measured in the years following the realignment decision are included as proxies for clients' expectations regarding new acquisitions, new financing, and anticipated return on assets.

The test hypothesis is stated in the null form as: H sub 0 The policy of allowing direct solicitation, as opposed to banning such solicitation, makes no difference in whether clients realign from non-Big 8 audit firms to Big 8 audit firms.

The client-auditor realignment model, where before refers to the period before the realignment decision and after refers to the period after the decision,(6) is:

Realignment sub i = a sub 0 + a sub 1 **Solicitation sub** i + a sub 2 Size sub i

+ a sub 3 (Return on assets before) sub i + a sub 4 (Return on assets after) sub i + a sub 5 (New financing before) sub i + a sub 6 (New financing after) sub i + a sub 7 (New acquisitions before) sub i + a sub 8 (New acquisitions after) sub i + e sub i

where:

Realignment sub i = a dummy variable that equals 1 if a client-auditor realignment occurs and 0 if client i retains the incumbent auditor;

Solicitation sub i = a dummy variable that equals 1 if direct solicitation is allowed in client i's principal place of business activity in the current period and 0 otherwise;

Size sub i = the natural log of total assets of company i in the current year, measured in 1982 dollars;
(Return on assets before) sub i = net income plus interest divided by total assets, averaged over the five years before the current year;

(Return on assets after) sub i = net income plus interest divided by total assets, averaged over the four years after the current year;

(New financing before) sub i = the amount of new equity and debt financing divided by total assets, averaged over the five years before the current year; and

(New financing after) sub i = the amount of new equity and debt financing divided by total assets, averaged over the four years after the current year; and

(New acquisitions before) sub i = the amount of new acquisitions divided by total assets, averaged over the five years before the current year; and

(New acquisitions after) sub i = the amount of new acquisitions divided by total assets, averaged over the four years after the current year; and a sub 0 = intercept term; a sub 1 ,..., a sub 8 = the logistic coefficients; and e sub i = error term.
The significance of the **solicitation variable** is a direct test of the null hypothesis. A positive association between realignment and the **solicitation variable** would be consistent with arguments that allowing direct solicitation increases dominance by large auditors. In addition, a positive association is predicted between realignment and each of the explanatory variables.

SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

The sample of firms was selected from the Compustat Annual Industrial Tape starting in the year 1980. Two consecutive years of auditor information were required to identify auditor realignments. All companies on Compustat were categorized into the following client-auditor realignment categories:(7) (1) clients of Big 8 auditors in the prior year retaining their Big 8 auditor in the current year or realigning to another Big 8 auditor in the current year (where the current year is from 1980,..., 1998 and the prior year is from 1979,..., 1987, respectively) (34,217 observations), (2) clients of Big 8 auditors in the prior year realigning to non-Big 8 auditors in the current year (441 observations), (3) clients of non-Big 8 auditors in the prior year retaining non-Big 8 auditors in the current year (10,321 observations), and (4) clients of non-Big 8 auditors in the prior year realigning with Big 8 auditors in the current year (717 observations). Since the purpose of this paper is to examine competitive activities of large firms in taking clients from smaller auditors, the last two categories are of primary interest. Thus, the initial sample (before considering data and solicitation policy availability) consists of those firms whose auditor in the previous year was a non-Big 8 firm (a total of 11,038 observations); for this sample, the term auditor realignment refers to realignment with a Big 8 auditor as opposed to retaining any non-Big 8 auditor. Of these 11,038 observations, 6.5% (717) realigned to a Big 8 auditor in the current year.(8, 9)

To determine whether or not solicitation activities played a role in non-Big 8 to Big 8 realignments, information regarding direct solicitation was collected. Determining the appropriate solicitation rule for each client in the sample required both historical information regarding state CPA boards' solicitation policies and information on each client's primary place of operations. Historical solicitation policy information was obtained by mailing questionnaires to all 50 state CPA boards. The boards were asked to provide copies of the Code of Ethics provisions regarding direct solicitation in effect in 1975 as well as copies of amendments to these ethics provisions in periods subsequent to 1975. The years 1975 through 1979 were eliminated from the study as both advertising and direct solicitation were banned in these years. Observations were assigned to banned and allowed markets using the National Bureau of Standards' Federal Information Processing Standards (FIPS) state code provided by Compustat, a code which designates the principal location of a company's operation. Table 1 summarizes the number of years direct solicitation was banned and the number of years it was allowed for each state during our test period. (Table 1 omitted) For years "banned," all forms of direct solicitation were prohibited. The year in which a state changed from "banned" to "allowed" was excluded from our sample for clients in that state. Clients were also excluded for any year in which direct solicitation information was unavailable (missing).

The sample of clients with non-Big 8 auditors included 6,649 observations after deleting companies operating in states banning only oral direct solicitation, companies operating in states in years where the solicitation rule changed and companies operating in states where the solicitation rule was unavailable. Measures for the client size, return on asset, new financing and new acquisition variables were obtained from the Compustat

Annual File. The final sample includes 5,949 observations after deleting clients with missing variable information.

A correlation matrix for the regression variables is presented in table 2. (Table 2 omitted) The correlation between our realignment variable and most other variables is significant but relatively small (under nine percent). The correlations between new financing before the realignment decision and return on assets before and after the realignment decision are negative and significant (-0.429 and -0.223, respectively); not surprisingly, the correlation between new financing before the realignment decision and new acquisitions before the decision is positive and significant (0.198). Size is significantly correlated with most of our variables except solicitation; the largest correlations are between size and return on assets before (0.361) and return on assets after (0.258).(10)

Descriptive statistics are presented in tables 3 and 4. (Tables 3 and 4 omitted) Table 3 presents the mean and median information on the variables in the allowed and banned markets, as well as t-statistics and chi-square statistics for testing differences between the two markets. While new financing before is the only variable with significant differences between the banned and allowed markets for both means and medians, the means of new financing after and return on assets before are also significantly different.

Table 4 presents similar information for clients in our sample that realigned with a Big 8 auditor in comparison to those clients that retained a non-Big 8 auditor. Both the means and medians of the realignment categories differ for new financing before and new acquisitions after. For the remaining variables, the differences in the means or the medians are significant with the exception of the direct **solicitation variable** . Again this reinforces the need to control for these variables in our regression, as these characteristics may be related to client-initiated switches.

The primary variable of interest, the measurement of differences in the percentages of clients realigning from non-Big 8 auditors to Big 8 auditors, is reported in table 3. From the realignment variable, we see that 6.12% of clients in the allowed market realigned with Big 8 auditors, while 6.88% of clients in the banned market realigned with Big 8 auditors. Univariate tests of differences in the proportions of clients realigning from non-Big 8 to Big 8 auditors in the allowed market and banned market indicate that there is no significant difference. Thus, without controlling for other factors which might influence either a Big 8 firm's interest in targeting a particular client or a client's interest in obtaining a new auditor, solicitation appears to make no difference in the frequency of auditor realignments from non-Big 8 to Big 8 auditors. However, the real interest is in what happens when the factors alluded to earlier are included in the analysis. The details of those findings are presented in the following section.

LOGISTIC REGRESSION RESULTS

Logistic regression analysis of the model presented is used to test the null hypothesis that the likelihood of client-auditor realignment does not differ between clients operating in banned and allowed markets. The results are reported in table 5. (Table 5 omitted) The significance of the direct **solicitation variable** is a direct test of the null hypothesis. As seen in table 5, the null hypothesis cannot be rejected. In fact, the sign of the coefficient is opposite the sign that would be expected if the solicitation activities of Big 8 auditors were influencing the number of switches in the allowed market, albeit insignificant.

Variables measuring client size, new financing before the realignment decision, new financing after the decision, and new acquisitions after the decision were found to be positively and significantly (at the 0.01 level) associated with the client-auditor realignment decision. These variables are reasonably interpretable as proxies for the demand for brand name (Big 8) auditors or as indicators of characteristics making a change to a larger auditor desirable from the client' s perspective. Variables measuring return on assets before and after the decision, as well as new acquisitions

before the decision, were not significantly associated with the realignment decision.(11)

To consider the robustness of our logistic regression results, the regression is repeated after partitioning the data in a variety of ways: (1) to examine only those firms likely to be targeted by Big 8 firms, based on observable variables such as client size, return on assets, new acquisitions, and new financing measured over the period before the realignment decision, (2) to consider firms exhibiting high returns, acquisitions, etc. in both the period before and after the decision, and (3) to consider firms exhibiting significant change in variables measured before and after the decision. The results were basically unaltered and are not reported here.

In addition to partitioning the data to focus on observable characteristics expected to be targeted by large auditors, the regression presented in table 5 on the entire sample was repeated with the addition of interaction variables for solicitation and size, return on assets before the decision, new financing before the decision, and new acquisitions before the decision. The interaction variables were added individually and jointly, with no discernible difference in our results. The regression including all interaction variables is presented in table 6. (Table 6 omitted) The interaction terms were statistically insignificant, and no evidence was found of more frequent switching in the allowed market than in the banned market.

These results are somewhat surprising when considered in conjunction with previous research examining switches within the Big 8 market. In a study by Chaney et al. (1993), significantly more switches from Big 8 auditors to other Big s auditors were found in the allowed market than in the banned market. Thus, it would appear that claims that allowing solicitation increases large auditor dominance over small firms are unjustified. In contrast, it seems that allowing solicitation has more of an impact on competition among Big 8 auditors, while switches from non-Big 8 to Big 8 auditors are unrelated to solicitation policy.

To investigate and contrast further realignment activities for various categories of switches, table 7 provides a comparison of differences between realignment activities in banned and allowed markets for three categories of client-auditor realignment: (1) non-Big 8 to Big 8, (2) Big 8 to non-Big 8 and (3) Big 8 to Big 8. (Table 7 omitted) Table 7 indicates that for the entire period of 1980-1988, significant differences in the realignment activities of clients in the banned and allowed markets exist for the Big 8 to non-Big 8 category and the Big 8 to Big 8 category. In both cases, there is greater evidence of realignment activity in the allowed market. While a larger percentage of non-Big 8 clients switch to Big 8 firms (6.12% of clients in the allowed market changed auditors from a non-Big 8 auditor to a Big 8 auditor and 6.88% of clients in the banned market changed auditors from a non-Big 8 to a Big 8 auditor), there is no evidence of differences between the two markets, and in fact there are slightly fewer switches in the allowed market. No distinction is made whether the lack of evidence of a solicitation effect in the allowed market (for the non-Big 8 to Big 8 group) is due to the absence of competitive behavior by Big 8 auditors or the failure of such behavior to result in increased auditor realignment.

SUMMARY AND CONCLUSIONS

The primary objective of this research is to empirically compare client-auditor realignment activities from non-Big 8 audit firms to Big 8 audit firms in markets allowing direct solicitation (allowed markets) and markets prohibiting such practices (banned markets). Supporters of direct solicitation activities argue that clients can make more informed choices of auditors when auditors are allowed to self-select and solicit prospective clients. Opponents of direct solicitation activities argue that the market is less competitive in markets allowing direct solicitation as predatory activities of large firms increase the dominance of large firms.

The empirical analysis examines a sample of clients retaining non-Big 8 auditors or realigning with Big 8 auditors. No significant association is found between the client's realignment decision and the solicitation rule

in effect in the client's primary place of operations. The evidence is even more persuasive when considered in conjunction with research indicating that Big 8 to Big 8 realignment occur with significantly greater frequency in the allowed market than in the banned market. One interpretation is that Big 8 auditors engage more actively in soliciting clients audited by other Big 8 auditors than in soliciting clients audited by non-Big 8 auditors. An alternative interpretation is that efforts of Big 8 auditors to solicit non-Big 8 clients in the allowed market are not evidenced by increasing numbers of switches in that market. Still another interpretation is that the policy of allowing solicitation actually makes small auditors more competitive, perhaps because most clients are more likely to be already aware of the strengths and specializations, etc. of Big 8 auditors than of smaller, less visible auditors. If the last interpretation is accurate, more switches would be expected to be seen among non-Big 8 auditors in the allowed market. Further investigation would be of interest for future research.

However, regardless of the interpretation of the reason for the results, the results themselves provide positive evidence for policy makers that allowing direct solicitation does not have adverse effects on the competitive nature of the audit market. The findings suggest that the controversial move toward allowing more aggressive marketing techniques by auditors has not hurt the competitive position of smaller firms. In particular, the policy of allowing solicitation does not appear to have increased the dominance of Big 8 auditors over non-Big 8 auditors.

1 In 1989 the National Association of State Boards of Accountancy (NASBA) revised its Model Code to allow direct solicitation.

2 The state boards of accountancy and the American Institute of Certified Public Accountants (AICPA) removed bans on advertising as well as most of the restrictions on advertising activities other than those which convey "false, misleading, or deceptive messages" (Rule 502, AICPA Code of Professional Ethics).

3 The Justice Department charged the Louisiana State Board of Accountancy with engaging in a combination and conspiracy in unreasonable restraint of interstate trade and commerce in violation of Section One of the Sherman Act.

4 The terms "Big 8" (as opposed to "Big 6") and "non-Big 8" (as opposed to "non-Big 6") are used throughout the remainder of the paper as the majority of sample observations were drawn from periods preceding the merger of Deloitte, Haskins and Sells and Touche Ross into the firm Deloitte and Touche and the merger of Ernst and Whinney and Arthur Young into the firm Ernst and Young.

5 Throughout this paper the terms realignment and switching are used interchangeably.

6 Measured as in Johnson and Lys (1990), the period before the realignment decision includes five years, while the period after the decision includes four years.

7 Compustat does not provide auditor information on firms in banking, life insurance, or property and casual companies. Therefore, the results of this study are not generalizable to companies in those industries.

8 As this statistic could be sensitive to the extent to which the data source includes information on auditor realignments, a sample of realignments from the 5th and 6th editions of Who Audits America was used as a basis for evaluating the completeness of our data. Using a sample of 84 realignments from non-Big 8 audit firms to Big 8 audit firms, 73 of the realignments were matched to companies included in the Compustat database.

9 While non-Big 8 to Big 8 realignments are the focus of our study, the net gains of Big 8 firms during the 1980-1988 period were also examined. As stated above, during 1980-1988, there were 441 switches in the opposite direction from Big 8 to Non-Big 8 clients. Thus, the Big 8's net gain totals 276 clients.

10 Potential effects of multicollinearity on our results are considered in the results section by repeating our regressions with the introduction of variables one by one. No evidence was found that our results are influenced by multicollinearity among the variables. In particular, the coefficient of interest (solicitation) is unaffected.

11 Previous client-auditor realignment research has reported that clients are more likely to realign subsequent to receiving a qualified opinion (e.g., Chow and Rice [1982]). The regressions were repeated with the addition of a variable for the prior period's opinion, deleting observations from the year 1988 for purposes of this test because of a 1989 change in the way consistency qualifications were coded by Compustat. In our sample, there was no significant association between the receipt of a qualified opinion and the realignment decision.

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Paul K. Chaney is an Associate Professor and Debra C. Jeter is Assistant Professor both at Vanderbilt University, and Pamela Erickson Shaw is the Chief Financial Officer of Investor Management Corporation.

GEOGRAPHIC NAMES: US

DESCRIPTORS: Auditing; Quality of service; Studies; Statistical analysis; Auditor changes; Direct selling
CLASSIFICATION CODES: 4130 (CN=Auditing); 8305 (CN=Professional services not elsewhere classified); 9130 (CN=Experimental/Theoretical); 9190 (CN=United States); 7300 (CN=Sales & selling)

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?s s1 and variable
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         1136699  VARIABLE
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?s s1 and (purchas?(2w)(variable or value))
Processing
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Completed processing all files
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         1136699  VARIABLE
         8457345  VALUE
           11120  PURCHAS?(2W)(VARIABLE OR VALUE)
      S5       4  S1 AND (PURCHAS?(2W)(VARIABLE OR VALUE))
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Display 5/9/1 (Item 1 from file: 621)
DIALOG(R)File 621:Gale Group New Prod.Annou.(R)

03519696 Supplier Number: 107447300 (THIS IS THE FULLTEXT)
Comergent Announces Record Year in Sales, Customer Growth and Industry Recognition; Increased Customer Acquisition, High Customer Satisfaction, and High Marks From Industry Analysts Help Drive Exceptional Growth.
PR Newswire, pNA
Sept 9, 2003
Language: English Record Type: Fulltext
Document Type: Newswire; Trade
Word Count: 1248
TEXT:
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Customer Go-Lives: Comergent reports a record number of engagements were completed at customers such as automobile manufacturer Nissan North America, hotel franchisor Choice Hotels International, office furniture manufacturer Haworth, automotive aftermarket parts manufacturer Gates Corporation, industrial coatings manufacturer DuPont Performance Coatings Europe, global publisher Pearson, high tech reseller World Wide Technology, HVAC manufacturer International Environmental Corporation, high tech distributor GE Access, and many more.

New Projects with Existing Customers: Comergent increased their footprint with existing customers as a result of additional projects. Approximately 89% of Comergent customers have implemented further projects at customers such as hotel franchisor Choice Hotels International, networking solutions provider Cisco Systems, global publisher Pearson, high tech distributor GE Access, wire and cable manufacturer General Cable, mobile data communication hardware manufacturer, Symbol Technologies, commercial equipment manufacturer Castle Rock Industries, and more.

High Customer Satisfaction Ratings: Comergent reports quarterly customer satisfaction ratings consistently more than 4.2 out of a possible 5 point evaluation. Survey responses are **solicited** from **individual** customer contacts in varying roles including technology and business. Surveys are administered by an independent third-party firm. Leading industry analyst firm, AMR Research cited Comergent's dedication to customer satisfaction stating, "Comergent probably has the most satisfied customers in the market these days."

Industry Analyst Recognition: Comergent received strong recognition from leading industry analysts including Gartner, AMR Research, and Aberdeen Group. Gartner positioned Comergent as the sole Visionary in all three Gartner Magic Quadrant reports pertaining to demand chain management: Sell-Side E-Commerce Platform, Partner Relationship Management, and Sales Configuration. Gartner also published case studies on Comergent customer deployments at DuPont Performance Coatings and Nissan North America. AMR Research applauded Comergent for the breadth and depth of its demand chain management solution stating, "Comergent's expertise in order management makes them one of the top ten vendors to watch in this arena." Aberdeen

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Comergent Acquires Enduse Incorporated: In January 2003, Comergent **purchased variable** pricing and auction software vendor, Enduse. Under the terms of the agreement, all assets and technology were acquired.

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Web site: http://www.comergent.com/

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- end of record -

?d s5/9/2

Display 5/9/2 (Item 1 from file: 16)

DIALOG(R)File 16:Gale Group PROMT(R)

10701727 Supplier Number: 107447300 (THIS IS THE FULLTEXT)

Comergent Announces Record Year in Sales, Customer Growth and Industry Recognition; Increased Customer Acquisition, High Customer Satisfaction, and High Marks From Industry Analysts Help Drive Exceptional Growth.

PR Newswire, pNA
Sept 9, 2003
Language: English Record Type: Fulltext
Document Type: Newswire; Trade
Word Count: 1248

TEXT:

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- end of record -

?d s5/9/3

Display 5/9/3 (Item 1 from file: 148)

DIALOG(R)File 148:Gale Group Trade & Industry DB

16200555 SUPPLIER NUMBER: 107447300 (THIS IS THE FULL TEXT)

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PR Newswire, NA
Sept 9, 2003
LANGUAGE: English RECORD TYPE: Fulltext
WORD COUNT: 1248 LINE COUNT: 00114

TEXT:

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New Projects with Existing Customers: Comergent increased their footprint with existing customers as a result of additional projects. Approximately 89% of Comergent customers have implemented further projects at customers such as hotel franchisor Choice Hotels International,

networking solutions provider Cisco Systems, global publisher Pearson, high tech distributor GE Access, wire and cable manufacturer General Cable, mobile data communication hardware manufacturer, Symbol Technologies, commercial equipment manufacturer Castle Rock Industries, and more.

High Customer Satisfaction Ratings: Comergent reports quarterly customer satisfaction ratings consistently more than 4.2 out of a possible 5 point evaluation. Survey responses are **solicited** from **individual** customer contacts in varying roles including technology and business. Surveys are administered by an independent third-party firm. Leading industry analyst firm, AMR Research cited Comergent's dedication to customer satisfaction stating, "Comergent probably has the most satisfied customers in the market these days."

Industry Analyst Recognition: Comergent received strong recognition from leading industry analysts including Gartner, AMR Research, and Aberdeen Group. Gartner positioned Comergent as the sole Visionary in all three Gartner Magic Quadrant reports pertaining to demand chain management: Sell-Side E-Commerce Platform, Partner Relationship Management, and Sales Configuration. Gartner also published case studies on Comergent customer deployments at DuPont Performance Coatings and Nissan North America. AMR Research applauded Comergent for the breadth and depth of its demand chain management solution stating, "Comergent's expertise in order management makes them one of the top ten vendors to watch in this arena." Aberdeen Group, in their annual analysis of "E-Commerce and the Demand Chain," highlighted Comergent's promotion from Contender to Leading Supplier of sell-side/DCM applications. They report that Comergent is "one the best kept secrets in the e-commerce/DCM space."

Awards and Honors: Comergent garnered a number of distinctions such as hottest company by Start Magazine, top demand chain enabler in the iSource 100 by iSource Magazine, selection for the Essential Business Software Tool Kit by Business 2.0 Magazine, and top technology enabler by Start Magazine. Comergent CEO Jean Kovacs was recognized as one of the most influential women in business by the Silicon Valley/San Jose Business Journal. Comergent customers also won awards as a result of their implementations with Comergent, including Lycoming for the InfoWorld 100 Award by InfoWorld Magazine and Castle Rock Industries for the Technology and Business Award by Start Magazine and Microsoft.

New Strategic Partnerships: Comergent entered into new strategic partnerships with other market leaders such as BEA, ATG, e2Open, CNET Channel, and Profile Systems.

Comergent Acquires Enduse Incorporated: In January 2003, Comergent **purchased variable** pricing and auction software vendor, Enduse. Under the terms of the agreement, all assets and technology were acquired.

About Comergent

Comergent is the leading provider of demand chain management software that enables enterprises to make it easier for their customers and partners to do business and reduce the cost of selling processes, all through a single system. The Comergent E-Business System(TM) handles all selling processes for the enterprise-from sales lead to order capture and service. Comergent is a privately held company. Customers include such industry leaders as Cisco Systems, DuPont, General Cable, Maytag, Nissan North America, Seagate, Symbol and Toro. Comergent has been named a Computerworld Top 100 Emerging Company for 2002, a Cool Company for 2001 by Fortune magazine, and is the winner of the 2001 Investors' Choice award by Technologic Partners. This award recognizes the top ten enterprise companies most likely to succeed. For more information, visit www.comergent.com or send e-mail to info@comergent.com.

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Web site: http://www.comergent.com/

COMPANY NAMES: Comergent Technologies Inc.

INDUSTRY CODES/NAMES: BUS Business, General; BUSN Any type of business
DESCRIPTORS: Computer software industry; Electronics industry; Income
GEOGRAPHIC CODES/NAMES: 1USA United States
FILE SEGMENT: NW File 649

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Display 5/9/4 (Item 1 from file: 20)

DIALOG(R)File 20:Dialog Global Reporter

31063334 (THIS IS THE FULLTEXT)

Comergent Announces Record Year in Sales, Customer Growth and Industry Recognition

PR NEWSWIRE (US)
September 09, 2003
JOURNAL CODE: WPRU LANGUAGE: English RECORD TYPE: FULLTEXT
WORD COUNT: 1145

REDWOOD CITY, Calif., Sept. 8 /PRNewswire/ -- Comergent Technologies(R), Inc., the leading provider of demand chain management software solutions, today announced record results for their latest fiscal year-highlighted by product sales up over 65% from the previous year. Comergent's best year to date is marked by a number of other successes including significant customer acquisition, strong customer satisfaction ratings, and favorable recognition by industry analyst firms.

Founded in 1998, Comergent has distinguished itself by growing and thriving during the lean post-dot com times. In fiscal year 2003, new Comergent customers increased by 35% over the previous year, signifying the greatest customer acquisition growth in Comergent history.

"By any standard, the level of growth and success that Comergent has earned this past year would be impressive," said John Mumford, founding partner, Crosspoint Venture Partners, a Comergent investor. "The fact that Comergent has accomplished this during one of the worst economic downturns in decades is phenomenal. Credit goes to the entire Comergent Team."

Comergent's application solutions are designed to automate and optimize all the processes an enterprise needs in order to sell their goods and services-the demand chain. This includes everything from marketing and lead management to order management to post-order services and analytics. The Comergent E-Business System(TM) is typically implemented in about 90 days and customers receive a return on investment within the first six months.

"Comergent stands out as a smart company offering real value that affects the bottom line for businesses regardless of industry," said Gary Rieschel, executive managing director, Mobius Venture Capital, a Comergent investor. "We're excited to see the growth and success trajectory Comergent is on and we fully expect even greater growth next year."

"Since the beginning, Comergent has been focused on one thing-making it easy for customers to transact business," said Jean Kovacs, president and CEO, Comergent. "By enabling an enterprise's customers to purchase from them when they want and how they want, Comergent helps minimize selling costs and increase sales revenues. A CFO couldn't ask for a better end result."

Comergent Fiscal Year 2003 Highlights

The following highlights occurred during the time period beginning July 1, 2002 and ending June 30, 2003:

New Customer Acquisition: Comergent increased their customer list by 35% since the previous fiscal year with new customers such as global publisher Pearson, high tech distributor GE Access, office furniture manufacturer Haworth, HVAC manufacturer International Environmental Corporation, major fast food franchisee purchasing cooperative Restaurant Services Inc. (RSI), data protection manufacturer Quantum, software manufacturer Adobe Systems, aftermarket parts manufacturer Goodrich Aerostructures, industrial equipment manufacturer Thermadyne, footwear and apparel manufacturer Brooks Sports, office supplies retailer Staples, industrial equipment manufacturer NACCO, and many more.

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Web site: http://www.comergent.com/

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